



Testimony Of

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Financial Services Subcommittee on  
Housing and Community Opportunity  
of the U.S. House of Representatives

Hearing on H.R. 3755,  
the "Zero Downpayment Act of 2004"

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Good morning. Chairman Ney, Ranking Member Waters, and distinguished Members of the Subcommittee, thank you for this opportunity to testify regarding H.R. 3755, the “Zero Downpayment Act of 2004.”

My name is Ann Ashburn, and I am President and Chief Executive Officer of AmeriDream, Inc., a national non-profit organization committed to increasing homeownership opportunities. Our credo is: “Doing things right for America’s homebuyers.” AmeriDream provides a full range of homeownership-related services, including down payment gift assistance, homebuyer education, loss mitigation counseling, community redevelopment, charitable contributions, and soon, mortgage payment protection. Over the last five years, AmeriDream’s down payment assistance program has helped more than 130,000 low- and moderate-income individuals and families become homeowners, many for the first time. Each and every month, this program is helping more than 3,000 hard-working families achieve the American dream of homeownership. AmeriDream is especially proud to note that almost 30% of our down payment gift funds are distributed to minority homebuyers – individuals and families for whom the dream of homeownership has often seemed out of reach for far too long, as this Subcommittee well knows.

AmeriDream wholeheartedly encourages efforts by the Administration and this Subcommittee to break down major barriers to homeownership – particularly with respect to high down payments and closing costs. AmeriDream strongly supported the enactment of the American Dream Downpayment Act last year, and we urge the Subcommittee to continue its focus on issues related to down payment assistance throughout the remainder of the 108<sup>th</sup> Congress. To that end, Mr. Chairman, I applaud your leadership in calling this morning’s hearing, and, Congressman Tiberi, I commend you for introducing the important piece of legislation before us.

We appreciate this Subcommittee’s recognition that when government seeks to take on a new area of responsibility, policymakers are often well served to draw on the experience and successes of the private- and charitable-sectors for guidance in designing a workable and effective program. In considering significant housing policy reforms, in particular, policymakers must evaluate a host of potentially far-reaching consequences, while bearing in mind the enormous investment, both financial and emotional, that homeownership involves for most families. Given AmeriDream’s extensive experience in putting real families into real homes – more than 130,000 of them over the past five years – and our intimate familiarity in serving precisely the clientele that this proposal would target, AmeriDream is pleased to offer itself as a resource to the Subcommittee as it seeks to refine and perfect H.R. 3755.

I am particularly grateful to have been invited to present AmeriDream’s views at today’s hearing, Mr. Chairman, because the Zero Downpayment initiative, as embodied in H.R. 3755, seeks to address an issue with which we have considerable familiarity and extensive experience. Indeed, the underlying purpose and intent of this proposal reflect AmeriDream’s very mission – “to expand affordable housing opportunities for underserved groups and to promote the value of homeownership as the foundation for building strong communities and individual prosperity.”

Although eliminating the down payment barrier to homeownership can seem like a daunting challenge in light of the complexity of the issues involved and the potentially far-reaching policy consequences at stake, the charitable sector has shown that it is possible to craft a successful program while balancing all of the relevant concerns. Based on our years of experience in serving first-time homebuyers, including many who struggle to meet basic mortgage qualifications, AmeriDream would respectfully offer a few suggestions on how this important piece of legislation might be made even more effective. In that spirit, Mr. Chairman, I would like to offer a few general observations about the bill and then suggest three specific refinements for the Subcommittee's consideration.

I would begin with our general observations. As the Subcommittee considers the merits of the Zero Down proposal, we would submit that Members should strive to balance the potential appeal of Zero Down loans to homebuyers, on the one hand, against the possible drawbacks of such loans to some of those potential homebuyers and the communities in which they live, on the other. Potential drawbacks of Zero Down loans to prospective homebuyers include higher monthly payments, due to higher insurance premiums, and larger mortgages. Moreover, homeowners taking on a Zero Down loan would enter homeownership with zero, or even negative, equity. To the extent that homeowners are more likely to default on their loans when they lack equity in their homes, the Subcommittee may wish to consider what effects the availability of Zero Down loans may have on the future health of the FHA insurance fund. I would note, by way of contrast, that purchasing a home with down payment gift assistance – whether that assistance comes from government programs such as the President's American Dream Downpayment Initiative, from relatives, or from non-profit organizations – leaves the homeowner with lower payments and positive equity in their homes.

As the Subcommittee considers how best to bring the considerable, though limited, resources of the federal government to bear on the challenge of high down payment costs, we respectfully suggest that Members not overlook the integral role that non-profit providers such as AmeriDream can continue to play in helping low-income homebuyers achieve the dream of homeownership. While we warmly welcome the federal government's efforts to address the issue of high down payments, we believe that charitable gift providers can continue to make a valuable contribution in this area as part of a public-private partnership. In our view, the goal of increasing homeownership is too important an objective to ignore the long experience and deep expertise of reputable charitable providers: the best solution is for us to work together.

To this end, we would encourage the Subcommittee to seek appropriate ways to leverage the substantial experience and resources of charitable down payment gift providers, perhaps by ensuring a formal role for HUD-approved providers that demonstrate a clear, publicly minded commitment to our shared goal of increasing homeownership. While the federal government has recently begun to propose important initiatives to help low- and middle-income homebuyers overcome the barrier of high down payments, non-profit providers have been meeting this challenge successfully for years. To coin a phrase, Mr. Chairman, charitable down payment providers have been there, and we've done that – over 130,000 times at AmeriDream alone over the past five years. And we continue to help hard-working families achieve the American dream today through our full range of homeownership-related services, all without government funding, taxpayer dollars, or additional potential risks to homebuyers or the FHA insurance fund.

AmeriDream would welcome the opportunity to participate in a well-designed public-private partnership, Mr. Chairman, and we stand ready to work with this Subcommittee and the Administration in exploring how the charitable sector can most productively assist the government's efforts.

Moreover, Mr. Chairman, as the Subcommittee well knows, when Congress legislates significant reforms in policy areas that could give rise to uncertain consequences, it often does so by introducing those reforms gradually – by phasing them in over time or by establishing a demonstration project to evaluate a program's effectiveness. Clearly, much is at stake for the first-time homebuyer, the average taxpayer, and the overall economy (which has been buoyed of late by a thriving housing sector) with respect to the proposal before us, and little is known about the precise consequences of the Zero Down program, especially on minority homebuyers and their neighborhoods. Accordingly, the Subcommittee may wish to consider how it can appropriately advance this important policy objective in a way that both reduces potential risks and enhances the program's likelihood of success. One option that the Subcommittee might consider would be a gradual phase-in of the program (e.g., permitting FHA to insure 98% of a given loan in year one, then 99% of a loan, and finally 100% of a loan). Another option might be to introduce the program as a demonstration project (e.g., restricting the program to a relatively small number of lenders with strong performance records and/or placing an initial cap on the volume of mortgages insured).

In the course of assisting 130,000 homeowners achieve the American dream, we have learned a lot about the particular elements that contribute to a successful down payment program. So in addition to these general observations, Mr. Chairman, AmeriDream would like to propose three specific refinements to H.R. 3755 for the Subcommittee's consideration. I will be brief in describing these possible improvements now, but I would be happy to discuss them in greater detail during the question and answer period.

- **Require participating borrowers to demonstrate reasonable credit-worthiness.** First, the Subcommittee should require participating borrowers to demonstrate reasonable credit-worthiness. Most Zero Downpayment programs offered in the conventional mortgage market impose some sort of minimum credit requirement. For example, in order to qualify under Freddie Mac's Zero Down mortgage, borrowers must have a credit score of at least 700 or receive an "accept" from Loan Prospector, the agency's scoring model. While we would leave it to the Subcommittee's discretion to determine what specific credit requirements might be appropriate, we believe that some form of credit standard would be an important addition to the legislation in light of the uncertain effects of permitting FHA to insure Zero Down mortgages.
- **Require pre- and post-homebuyer counseling.** AmeriDream applauds the Subcommittee's continued attention to the issue of homebuyer counseling, as evidenced by the panel's interest in holding a public hearing on this topic last week. In the context of the Zero Down proposal, we believe that the Subcommittee should require participating borrowers to complete a HUD-certified counseling program, both before and after purchase. Many housing programs offered in the conventional mortgage market require some form of counseling for first-time homebuyers. Moreover, a recent study by

Freddie Mac concluded that pre-purchase counseling can reduce the risk of default by as much as 34%. Because a well-designed borrower counseling program can have a significant impact on loan performance and can help offset additional credit risk, the completion of pre- and post-purchase counseling is an appropriate requirement for borrowers seeking to participate in the proposed Zero Down program.

- **Require use of a HUD-authorized automated underwriting model.** In our view, the Subcommittee should also require that all borrower applications for participation in the Zero Down program be processed and approved by a HUD-authorized automated underwriting model. Automated underwriting models and similar technological advances hold great promise in controlling the credit quality of loans by ensuring that all relevant risk factors are considered. Furthermore, a recent study comparing the assessments of human underwriters to the classifications produced by Freddie Mac's Loan Prospector found that automated underwriting did a significantly better job of identifying loans that ultimately performed. This greater precision resulted in higher approval rates, especially for lower income and minority families. For these reasons, it would be appropriate for the Subcommittee to require the use of a HUD-authorized automated underwriting model in processing and approving borrower applications for participation in the Zero Down program.

Mr. Chairman, I hope that AmeriDream's experience, expertise, and long-standing commitment to our shared objective of increasing homeownership – particularly among homebuyers of modest means – has provided the Subcommittee a useful perspective this morning. AmeriDream would be pleased to work with the Subcommittee on this issue further over the weeks and months ahead, and I look forward to answering any questions you may have regarding this bill or my testimony this morning. On behalf of AmeriDream's nearly 100 employees and outreach representatives, the more than 130,000 homeowners we have served so far, and the countless small and minority-owned businesses we help support in carrying out our mission, thank you so much, Chairman Ney and Ranking Member Waters, for this opportunity to testify before you today.